

ANNUAL REPORT

2006

Laid before the House of Representatives pursuant
to section 44A Public Finance Act 1989.

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FUNCTIONS AND POWERS OF THE PANEL

The functions of the Takeovers Panel are set out in section 8 of the Takeovers Act 1993. In summary the Panel's functions are:

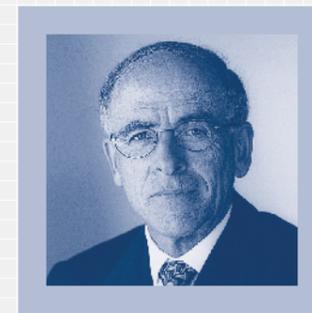
- > To keep under review the law relating to takeovers of specified companies and to recommend to the Minister any changes to that law it considers necessary;
- > For the purposes of its review of the law, to keep under review practices relating to takeovers of specified companies;
- > To investigate any act or omission or practice for the purpose of exercising its powers under the enforcement provisions of the Act;
- > To make determinations and orders and make applications to the Court under the enforcement provisions of the Act;
- > To co-operate with any overseas regulator and for that purpose to communicate to that regulator information obtained by the Panel in the performance of its functions and powers which the Panel considers may assist that regulator in the performance of its functions;
- > To promote public understanding of the law and practice relating to takeovers.

In exercising its functions and powers the Panel shall comply with the principles of natural justice.

The powers of the Panel are set out in Part 3 of the Takeovers Act 1993. In summary the powers of the Panel are:

- > To issue summonses and to take evidence on oath;
- > To carry out inspections and obtain evidence at the request of overseas regulators;
- > To make confidentiality orders;
- > To accept undertakings that are enforceable by the Courts;
- > To inspect documents, and to authorise the Registrar of Companies or any other person to undertake inspections;
- > To grant exemptions from the Code;
- > To enforce the Takeovers Code by:
 - making determinations on whether a person is complying with the Code;
 - issuing restraining orders; and
 - applying for Court orders.

Under the Takeovers Code the Panel has powers to approve independent advisers and appoint independent experts.



CHAIRMAN'S REVIEW

John King

The year 2006 marks the fifth anniversary of the operation of the Takeovers Code. Over its first five years the Code has proved its effectiveness and resilience.

The Code contributes to confidence in New Zealand's capital markets by providing investors with certainty as to how changes of control of code companies can occur. The Code provides a special regime for changes of control of code companies based on a process of a takeover offer for control. Parties can compete for control of a company on the basis of a clear set of rules with all shareholders being treated equally and having the opportunity to take part in the takeover process. Investors in code companies are given special status under New Zealand takeovers law. Unless that special status is protected the integrity of the takeovers market is at risk.

THE COMPANIES ACT

The Companies Act 1993 provides other procedures for changes of control of companies through schemes of arrangement approved by the High Court and amalgamations. These procedures do not have the same protections for shareholders that apply to changes of control under the Code, although they can be and have been used in relation to code companies.

The most significant market issue for the Panel that has arisen this year has been the increasing use of schemes of arrangement and amalgamations under the Companies Act to effect changes of control of code companies. Technical devices have been utilised in some cases to ensure that schemes of arrangement were not caught by the Code. One example was the INL/Sky merger. The takeover of Waste Management by Trans Pacific Industries Group used the amalgamation procedure to avoid the requirements of the Code.

The Panel recognises that schemes of arrangement in particular can have a role in mergers of code companies. However, we are of the view that the principles of the Code should apply when procedures other than a takeover offer under the Code are used to effect changes of control of code companies.

The Panel has a function to keep the law relating to takeovers of code companies under review. We drew our concerns to the attention of the market in April 2006 with a discussion paper on exemptions relating

to schemes of arrangement. We took steps to mitigate the use of schemes of arrangement as a means of avoiding the protections for shareholders contained in the Code. We revoked the class exemption for initial public offers which had been relied upon in some schemes of arrangement to effect the final stages of a merger. The class exemption was originally granted to enable new public company floats to proceed where the parties had complied with the Securities Act 1978 and made some additional disclosures to prospective investors about control percentages. The use of this class exemption in schemes of arrangement was not intended to assist schemes to avoid the provisions of the Code.

We also signalled that the Panel would seek to be heard by the High Court when the Court is considering schemes of arrangement involving code companies. We considered that it would assist the Court in its supervision of schemes of arrangement to receive submissions on the use of the scheme procedure and the protections contained in the scheme for shareholders, particularly minority shareholders, taking into account the special legislative treatment relating to code companies contained in the Takeovers Act and the Code.

The Panel decided to make submissions to Government about the relationship between the Code and the provisions of the Companies Act as they apply to amalgamations and schemes of arrangement, and to recommend appropriate changes to the legislation. The proposals for law changes were set out in a further discussion paper released for public comment in June 2006. The proposals for schemes would require the Court to take into account the principles of the Code and the Panel's recommendations in determining its requirements for the approval of the scheme. Amalgamations would require approval by the Panel. The Panel's conditions of approval would be based on the principles of the Code. We believe the matter is urgent. We are considering the submissions received in response to the June discussion paper and will make recommendations to Government without delay.

SECURITIES LEGISLATION

The Securities Legislation Bill, expected to be enacted soon, will introduce changes that are significant for market participants.

Code company definitions

Currently all listed companies are covered by the Code. This includes listed companies with only non-voting securities quoted on the NZDX, some of which are wholly-owned subsidiaries of overseas companies. It was never intended that the Code should apply to these companies and the Panel has granted a number of exemptions to address the problem. Under the new definition the Code will apply to listed companies with securities that confer voting rights quoted on the exchange and to companies that have been listed and had securities that confer voting rights quoted on the exchange in the preceding 12 months. For unlisted companies, the new definition removes the asset threshold so the Code will apply to every company that has 50 or more shareholders. When the new law is enacted some companies currently within the definition of

a code company will no longer be subject to the Code, and some small non-listed companies that currently are not subject to the Code will come under its jurisdiction.

Misleading conduct

The new law addresses misleading conduct relating to takeovers. In particular, the new rule 64 effectively imports section 9 of the Fair Trading Act 1986 into the Code. This will enable the Panel to take action in respect of any misleading conduct relating to takeovers. Currently the Panel can only deal with misleading conduct in takeover documents. Misleading conduct includes bid tactics such as extending an offer period after a statement that the offer period will not be extended, raising the offer price after a statement that the price will not be raised, and making a second offer after the first offer is promoted as the only offer. Last and final statements will have to be observed. The Panel is developing policies for enforcing the new rule 64 and will take into account policies in Australia where 'truth in takeovers' has received considerable attention.

Panel's enforcement powers

The new legislation will also enhance the Panel's present powers to make temporary restraining orders by enabling it to make permanent compliance orders. These complement the new rule 64. The permanent orders will give the Panel the power to deal decisively with any kind of misleading conduct and with misleading or deceptive, or otherwise defective, takeover documents. They will enable the Panel (without recourse to the Courts) to prohibit or restrict persons from making statements or distributing documents, and to direct them to disclose information or to publish, at their own expense, corrective statements. The Panel will also be able to make restraining orders and compliance orders for breaches of exemptions as well as breaches of the Code itself, and against any person with a secondary involvement in the breach as well as the person who has actually committed the breach.

Civil remedies and penalties

The new regime provides for the High Court to make compensatory orders which may be awarded to a person for loss or damage caused by a contravention of the Code, and includes a new pecuniary penalties regime. The fines for general offences under the Takeovers Act are increased. In addition, the Court can make management banning orders against persons convicted of misleading the Panel or of making or disseminating materially false or misleading statements or information. Company directors who persistently contravene the Takeovers Act or Code, the Companies Act, the Securities Markets Act or the Securities Act may also be subject to management banning orders.

Technical amendments to the Code

The long awaited technical amendments to the Code are soon to be promulgated by Government. The regulations are expected to be completed and to come into effect following the passing of the Securities Legislation Bill.

The strengthening of the law relating to takeovers will fill a number of gaps in the present legislation and is welcomed by the Panel. However the Panel's approach to its role under the Takeovers Act and the Code will not change. When a breach occurs we will continue to seek the most appropriate remedy for the breach in the circumstances and the right outcome for the market. We prefer to find a remedy that keeps a takeover bid on track whether or not that requires the use of formal powers. At all times the Panel aims to facilitate the effective operation of the takeovers market. We will be issuing more detailed information on the new legislation and technical amendments to the Code as soon as firm dates for their introduction are known.

TAKEOVERS MARKET

There was considerable activity in the past year in the takeovers market. However the Panel's policies and procedures are now relatively well understood so, although the Panel remained very busy with its approval, exemption and enforcement duties, no particular difficulties arose apart from the issue of schemes of arrangement and amalgamations mentioned above. Two enforcement issues were of significance.

Oyster Bay

The Oyster Bay case¹ arose out of the contested bid for Oyster Bay Marlborough Vineyards. This was the first time that a Panel decision had come before the Court. In all previous cases breaches of the Code had been remedied without the need for recourse to the Court. It is an important case which emphasised the care that company directors must take in fulfilling their duties under the Code.

The case arose because the target company statement omitted certain information relating to a particular valuation of the vineyards owned by Oyster Bay. The Panel had determined after a hearing under Section 32 of the Takeovers Act that the information should have been included in the target company statement, a decision which was upheld by the Court. His Honour Justice Miller said:

*"...the standard of care required by the Code was not observed. Those signing the certificate (in the target company statement) were not in a position to express the view that information in the Target Company Statement was true and correct and not misleading, by omission or otherwise. Proper enquiries had not been made to identify the information that was reasonably likely to be material to shareholders, and to ensure that it remained accurate as at the date of the Statement."*²

This is an important case that should be studied carefully by company directors and their advisers.

Rank Group/Carter Holt Harvey

The other enforcement issue of significance arose out of the bid by Rank Group for Carter Holt Harvey. Two offers were made by Rank Group. The first offer at a price of \$2.50 per share closed after the

¹ *Takeovers Panel v Delegat's Wine Estate Ltd & Anor (No 3)* (HC, Wellington, CIV-2005-485-002058. 28 November 2005, Miller J).

² *Takeovers Panel v Delegat's (No 3)* at para [62].

offer period had been extended a number of times with Rank Group controlling 85.7% of the shares in Carter Holt Harvey. Seven days after the first offer closed Rank Group gave notice of its intention to make a further offer. The second offer was expressed as being open for acceptance for 30 days. However the terms of the offer provided a base consideration of \$2.70 per share, with an additional payment of \$0.50 per share for all acceptors if sufficient acceptances were received to enable Rank Group to reach the 90% compulsory acquisition threshold within seven days of the date of the offer.

There are two aspects to this case. First the Panel decided that the seven day provision for the higher consideration in the second offer effectively reduced the offer period to seven days in breach of the Code's minimum requirement of a 30 day period. As a result the second offer was amended to a straight offer at \$2.75 per share. This decision demonstrates the importance of taking into account the policy which the particular rule was clearly designed to implement, when interpreting the Code.

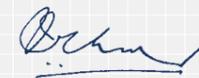
The second aspect of importance relates to the effect of the proposed new rule 64, dealing with misleading conduct. This new provision will have a significant effect on what can be called "follow on" offers. The issue that will arise will be whether any conduct or statements in connection with the first offer will constitute misleading or deceptive conduct in breach of rule 64 as a consequence of a "follow on" offer.

ANNUAL ACCOUNTS

The Panel received increased baseline funding in the Government's 2005 budget statement which enabled an increase in the executive during 2005/2006. The Panel reported a small operating surplus in line with its own forecasts. However, we anticipate that costs will rise when the legislative changes in the Securities Legislation Bill come into effect in 2007. This is expected to result in a deficit in 2006/2007. Additional funding will be required in future to enable the Panel to undertake the additional work arising from those changes.

CONCLUSION

I wish to acknowledge once again the high quality of the work performed by the Panel's executive. I also acknowledge the continuing support and commitment of Panel members. I have been fortunate to have retained the same experienced and able members for the first five years of the operation of the Code.



J.C. KING
Chairman

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FINANCIAL REPORT

SOURCES OF FUNDING

The Panel is funded by the appropriation of money by Parliament and the payment of fees by the users of its services, and parties to its enforcement actions. It is responsible for the allocation of the money. It sets priorities with care and reviews them continually to ensure that the money is used to best advantage.

STATEMENT OF RESPONSIBILITY

We acknowledge responsibility for the preparation of these financial statements and for the judgements used in them.

We acknowledge responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Panel's financial reporting.

In our opinion these annual financial statements fairly reflect the financial position as at 30 June 2006 and the operations of the Takeovers Panel for the year ended 30 June 2006.



J.C. King

CHAIRMAN

30 August 2006



D.M.D. Rawstorne

CHAIRMAN, AUDIT COMMITTEE

30 August 2006

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2006

Budget 2006 \$	Note	Actual 2006 \$	Actual 2005 \$
Operating income			
1,344,000		1,344,000	1,072,000
9,500		23,133	9,427
502,900	6	399,896	483,492
1,000		-	2,292
<u>1,857,400</u>		<u>1,767,029</u>	<u>1,567,211</u>
Income for litigation fund			
-	5	35,000	-
48,600	5	47,439	48,594
<u>48,600</u>		<u>82,439</u>	<u>48,594</u>
<u>1,906,000</u>		<u>1,849,468</u>	<u>1,615,805</u>
Operating expenditure			
6,500		6,755	5,500
200		-	3,164
38,000		21,498	38,584
390,000	4	337,373	364,592
27,800		24,853	27,754
120,000		123,998	117,498
31,600		40,340	28,972
80,000		56,297	91,083
1,108,250	3	1,115,956	888,626
<u>1,802,350</u>		<u>1,727,070</u>	<u>1,565,773</u>
-	5	152,513	-
<u>1,802,350</u>		<u>1,879,583</u>	<u>1,565,773</u>
<u>\$103,650</u>		<u>\$(30,115)</u>	<u>\$50,032</u>
This is comprised of:			
55,050		39,959	1,438
48,600		(70,074)	48,594
<u>\$103,650</u>		<u>\$(30,115)</u>	<u>\$50,032</u>

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2006

Budget 2006 \$	Note	Actual 2006 \$	Actual 2005 \$
Current assets			
69,269		17,333	9,610
-		3,484	-
300,000		261,399	322,897
749,307		597,308	700,707
-		1,112	-
8,164		3,005	8,164
-		35,439	-
92,183		146,645	111,075
(10,000)		(10,000)	(10,000)
<u>1,208,923</u>		<u>1,055,725</u>	<u>1,142,453</u>
<u>\$1,208,923</u>		<u>\$1,055,725</u>	<u>\$1,142,453</u>
Current liabilities			
70,000		70,567	105,800
20,000		-	21,380
<u>90,000</u>		<u>70,567</u>	<u>127,180</u>
Equity			
361,452		346,361	306,402
757,471	5	638,797	708,871
<u>1,118,923</u>		<u>985,158</u>	<u>1,015,273</u>
<u>\$1,208,923</u>		<u>\$1,055,725</u>	<u>\$1,142,453</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

NOTE 1 STATEMENT OF ACCOUNTING POLICIES**Reporting entity**

The Takeovers Panel is a body corporate established by the Takeovers Act 1993. The financial statements presented here are prepared pursuant to section 198 of the Crown Entities Act 2004.

Measurement system

The accounting principles recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis have been applied.

Specific accounting policies*Budget figures*

The budget figures are those approved by Panel members on 9 August 2005.

The budget figures are prepared in accordance with generally accepted accounting practice.

Short term deposits

Short term deposits are shown at cost.

GST

All items in the financial statements are exclusive of GST with the exception of sundry debtors and prepayments and creditors and accruals which are stated with GST included.

Financial instruments

All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Income tax

The Panel is exempt from income tax under the Income Tax Act 2004.

Sundry debtors

Sundry debtors are stated at their net realisable value after providing for doubtful and uncollectible debts.

Revenue recognition

Government grant is recognised as revenue when earned and is reported in the financial period to which it relates. Revenue from application fees and costs recoverable is recognised when the relevant services are provided or when the Panel has made the relevant determination under section 32 of the Takeovers Act 1993.

Litigation fund

Interest income and expenditure on approved litigation fund matters are reported as income and expenditure of the Panel in the financial period in which they were derived or incurred. Reimbursements from the Crown to top-up the fund are reported as income in the period to which the Panel's claim for reimbursement relates.

The balance of the fund is disclosed as a component of equity in the statement of financial position.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

The policy on the reporting of reimbursements from the Crown to top-up the litigation fund has been changed to better reflect the matching of this revenue with its related expenditure. This is the first year that the Panel has received such a reimbursement but the change does not have a material effect on the current year's outcome.

There have been no other changes in the Panel's accounting policies. All of the other policies have been applied on bases consistent with those used last year.

NOTE 3 SECURITIES COMMISSION SERVICES

Although the Panel is an independent Crown entity it does not have its own premises or equipment and does not employ its own staff. Instead these services are provided by the Securities Commission in terms of an agreement negotiated between the Panel and the Commission on an arm's length basis. The Panel pays the Commission on the basis of the hours worked by Commission staff on Panel business. Payments are at a rate that covers the cost of overheads including the use of premises and equipment and totalled \$1,115,956 for the year.

The payments to the Commission are paid in advance at the start of each quarter and are reconciled to actual usage at the end of the quarter. The amount of the unused portion of the advance to the Commission at 30 June 2006 was \$10,696. This is included in sundry debtors and prepayments in the statement of financial position.

NOTE 4 REMUNERATION OF MEMBERS OF THE PANEL

Members are remunerated on the basis of time spent on the work of the Panel. Members' fees for the year ended 30 June 2006 were:

	2006 \$	2005 \$
J.C. King (Chairman)	84,970	84,500
D.O. Jones (Deputy Chairman)	45,115	69,024
D.M. Byrne	14,751	15,000
A.N. Frankham	23,631	22,900
C.G. Giffney	23,832	33,236
A. Lawrence	33,182	29,580
K.J. O'Connor	36,675	31,784
D.J. Quigg	34,202	44,528
D.M.D. Rawstorne	14,288	20,040
S. Suckling	26,727	14,000
Total	<u>\$337,373</u>	<u>\$364,592</u>

NOTE 5 LITIGATION FUND

The Panel has established a litigation fund from an appropriation of \$675,000 (GST not applicable) made by Parliament. The fund is to be used solely for litigation costs that are incurred by the Panel as it enforces compliance with the Takeovers Code or responds to litigation brought against it. It is being held on short term deposit.

Parliament made a further appropriation of \$500,000 (GST inclusive) for the year ended 30 June 2006 to top-up the fund to the set level of \$675,000. The Crown has undertaken to provide funds of \$35,000 + GST from this appropriation as a partial top-up of the Panel's fund for the year ended 30 June 2006.

The issue of costs in the Oyster Bay litigation is currently before the High Court. Although the Court has issued its judgment the final amounts to be paid to the Panel have not yet been agreed. Accordingly the Panel has not made any provision for this in its revenue.

A summary of the movements in the fund during the year is as follows:

	2006 \$	2005 \$
Government grant received	35,000	-
Interest received	44,434	40,430
Interest accrued	3,005	8,164
Expenditure on approved litigation	(152,513)	-
Surplus (deficit) for the year	(70,074)	48,594
Opening balance 1 July 2005	708,871	753,277
Part return of litigation fund to the Crown	-	(93,000)
Balance at 30 June 2006	<u>\$638,797</u>	<u>\$708,871</u>

NOTE 6 APPLICATION FEES AND COSTS RECOVERABLE

The Takeovers (Fees) Regulations 2001 enable the Panel to recover costs with respect to applications received for various approvals, for exemptions, and for certain enforcement action pursuant to the Takeovers Act. An analysis of the amounts received for the year ended 30 June 2006 is as follows:

	2006 \$	2005 \$
Exemptions	232,704	295,254
Approvals	60,382	89,641
Enforcement – section 32	106,810	94,951
Miscellaneous	-	3,646
Total	\$399,896	\$483,492

NOTE 7 RECONCILIATION OF STATEMENT OF FINANCIAL PERFORMANCE WITH STATEMENT OF CASH FLOWS

	2006 \$	2005 \$
Net surplus (deficit)	(30,115)	50,032
Movement in working capital:		
Increase (decrease) in creditors	(56,613)	79,882
(Increase) decrease in receivables	(66,962)	6,869
	<u>(123,575)</u>	<u>86,751</u>
Net cash flows from operating activities	<u>\$(153,690)</u>	<u>\$136,783</u>

NOTE 8 CASH FLOWS**Investing activities**

Investing activities are those activities relating to the movements in short-term deposits. The cash flows relating to the Panel's investing activities are reported on a net basis in the statement of cash flows. The amounts involved are held in short-term deposits which are rolled over frequently through the year.

Financing activities

Financing activities are those activities relating to changes in the equity structure of the Panel.

Operating activities

Operating activities for the purposes of the statement of cash flows include all activities other than investing and financing activities. Activities funded from the litigation fund are included in this category.

Cash

This means cash balances on hand, held in bank accounts, and short-term deposits in which the Panel invests as part of its day-to-day cash management.

The closing balance of cash reported in the statement of cash flows is comprised of:

	2006 \$	2005 \$
Cash	17,333	9,610
Cash - litigation fund	3,484	-
Short-term deposits - other	261,399	322,897
Closing cash balance	\$282,216	\$332,507

NOTE 9 FINANCIAL INSTRUMENTS**Credit risk**

Financial instruments which potentially subject the Panel to credit risk consist of bank balances, bank short-term deposits, sundry debtors, and accrued interest receivable.

The Panel's investments are deposited with a registered bank in New Zealand.

The Panel does not require collateral or security to support financial instruments.

There are no concentrations of credit risk.

Fair values

All financial instruments are recognised in the statement of financial position and are stated at carrying amounts that are a reasonable approximation to their fair values.

Currency risk

The Panel does not hold any overseas securities or deposits and is therefore not exposed to any currency risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Panel invests only in short-term bank deposits for which there is no interest rate risk. The weighted average effective interest rate on short-term deposits was 6.90%. (2005 - 6.85%)

NOTE 10 COMMITMENTS

There were no lease commitments at balance date. (2005 - no commitments)

The Panel has no capital commitments at balance date. (2005 - no commitments)

NOTE 11 CONTINGENT LIABILITIES

There were no contingent liabilities at balance date. (2005 - no contingent liabilities)

NOTE 12 CONTINGENT ASSETS

As referred to in Note 5 the issue of costs in the Oyster Bay litigation is currently before the High Court. Although the Court has awarded costs in the Panel's favour the final amounts due from each party to the Panel have not yet been settled.

The amount that the Panel will receive will be determined in accordance with the judgment of the Court and until the decision has been made the Panel cannot reliably estimate the amount that will be received. The expectation of the Panel is that the amount will be at least \$45,000.

There were no other contingent assets at balance date. (2005 - no contingent assets)

NOTE 13 TRANSACTIONS WITH RELATED PARTIES

The Panel is an independent Crown entity for the purposes of the Crown Entities Act 2004. The Crown is its major source of revenue.

The Panel has entered into a number of transactions with other entities within the Crown on an arm's length basis. Where those parties are acting in the course of their normal dealings with the Panel, related party disclosures have not been made for transactions of this nature.

The Panel has a special relationship with the Securities Commission, another independent Crown Entity and therefore also a related party. This is referred to in Note 3 above.

NOTE 14 SUBSEQUENT EVENTS

There were no material events subsequent to balance date that would affect the interpretation of the financial statements or the performance of the Panel. (2005 – no subsequent events)

NOTE 15 SEGMENTAL INFORMATION

The Takeovers Panel operates in one industry segment administering the Takeovers Act and Code and is based in one geographical segment, which is New Zealand.

NOTE 16 BUDGET VARIANCES

Significant variances from budget were:

Income

Total operating income was \$90,371 lower than budgeted, primarily because of the lower than expected level of exemption and approval work, and lower than expected recoveries from enforcement action.

Expenditure

Total operating expenditure for the year was \$75,280 lower than budgeted, primarily because of lower than expected expenditure on communications, members' fees, and travel.

Net operating surplus

The Panel recorded a slightly smaller operating surplus than had been expected. This was a combination of the decreased income and expenditure discussed above. The activities of the Panel are influenced significantly by the level of takeover activity and the needs of the market for exemptions and approvals. The Panel also has obligations to keep the Code under review and to review market practices.

NOTE 17 PROFESSIONAL INDEMNITY INSURANCE

The Panel has effected a professional indemnity insurance policy to provide cover for members of the Panel and employees of the Securities Commission working for the Panel as the Panel performs its duties and statutory functions.

NOTE 18 INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Accounting Standards Review Board has issued replacement New Zealand Financial Reporting Standards to apply to periods beginning on or after 1 January 2007 but entities may choose to elect adoption for up to 2 years earlier. The new standards are the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The Panel has elected to publish its first full NZ IFRS financial statements for the year ending 30 June 2008.

For the purposes of *FRS-41 Disclosing the Impact of Adopting New Zealand Equivalents to IFRS* the Panel discloses the following:

Management of the transition to NZ IFRS

The Audit Committee is overseeing the transition to and implementation of the NZ IFRS on behalf of the Panel.

To comply with NZ IFRS for the first time, the Takeovers Panel will restate the comparative balances applying NZ IFRS. This will require a restatement of the opening balances as at 1 July 2006 to reflect any accounting policies required by the new standards.

Major changes in accounting policy and their impacts

Changes in accounting policies under NZ IFRS are applied retrospectively i.e. as if the new policy had always applied, except as permitted in particular circumstances by NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. An opening balance sheet prepared under NZ IFRS will be required as at 1 July 2006. This will also enable the 2007/08 financial statements to report comparatives under NZ IFRS.

Conclusion on impacts

From an initial review of the transactions and balances of the Panel it would appear that NZ IFRS is unlikely to have a material impact on the 1 July 2006 opening balances, the 2006/07 financial performance, or the 30 June 2007 balances.

The actual impact of adopting NZ IFRS may vary from the information presented, and the variation may be material.

AUDIT REPORT

TO THE READERS OF THE TAKEOVERS PANEL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of the Takeovers Panel. The Auditor-General has appointed me, Robert Cox, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Takeovers Panel, on his behalf, for the year ended 30 June 2006.

Unqualified opinion

In our opinion the financial statements of the Takeovers Panel on pages 10 to 18:

- ▲ comply with generally accepted accounting practice in New Zealand; and
- ▲ fairly reflect:
 - the Takeovers Panel's financial position as at 30 June 2006; and
 - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 30 August 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Members of the Panel and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- ▲ determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- ▲ verifying samples of transactions and account balances;
- ▲ performing analyses to identify anomalies in the reported data;
- ▲ reviewing significant estimates and judgements made by the Members of the Panel;
- ▲ confirming year-end balances;
- ▲ determining whether accounting policies are appropriate and consistently applied; and
- ▲ determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Members of the Takeovers Panel and the Auditor

The Members of the Panel are responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Takeovers Panel as at 30 June 2006. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The responsibilities of the Members of the Panel arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Takeovers Panel.



Robert Cox
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

MEMBERS OF THE TAKEOVERS PANEL



CHAIRMAN

John King

Consultant with Russell McVeagh. Chairman of the Panel since it was created in 1994 and previously of the Takeovers Panel Advisory Committee. Member of the Australian Takeovers Panel. Director of The New Zealand Guardian Trust Company Limited and former director of Telecom Corporation of New Zealand Limited and a number of other public and private companies. Vice president of the Employers & Manufacturers Association (Northern) Inc., member of the council of Business New Zealand, deputy chairman of the Spirit of Adventure Trust and a member of the Marsden Cross Trust Board.



DEPUTY CHAIRMAN

David Jones

Principal of Jones Young, barristers and solicitors, Auckland, specialising in mergers and acquisitions and corporate law. Personal adviser to the Minister of Justice on the company law reform programme 1991. Member of the Company Law Monitoring Group 1993. Lecturer in company law for the Institute of Directors. Member of the Panel from its inception as an advisory group.



MEMBERS

Denis Byrne

Brisbane-based company director. Member of the Australian Takeovers Panel since 1997. Chair of the Fisheries Research & Development Corporation, director of Australian Magnesium Corporation Limited, the Ball Solutions Group of Companies (Australia) and Birkdale Nursery Holdings Pty Limited. Member of the Starlight Children's Foundation Advisory Board. First appointed to the New Zealand Takeovers Panel in 2001 and reappointed in 2005.



Anthony Frankham

Auckland-based independent professional director and investigating accountant. Director of Auckland International Airport Limited and ProCare Health Limited. Director and chairman of New Zealand Experience Limited. Chairman of the Audit Office's New Zealand audit and risk management committee and member of the UNITEC audit and risk committee. Consultant to Grant Thornton. Life Member of the Institute of Chartered Accountants. Former member of the Securities Commission. Appointed to the Panel in 2002.



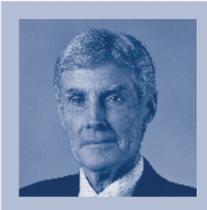
Colin Giffney

Principal of Giffney & Jones, specialist corporate advisers. NZX advisor and a founding member of the Market Surveillance Panel. Appointed to the Takeovers Panel in 2001.



Alastair Lawrence

Auckland-based investment banker. Principal of Antipodes, a private investment bank which provides specialist mergers and acquisitions advice, in addition to private equity for emerging New Zealand companies. Director of Landcare Research, and a number of private companies. Member of the Panel since 1994.



Kevin O'Connor

Wellington company director. Director of Utilico Emerging Markets Limited, and a range of private companies and charitable organisations. Former chairman of the Market Surveillance Panel of the New Zealand Stock Exchange. Member of the Panel since 1994.



David Quigg

Partner of Quigg Partners, barristers and solicitors of Wellington, specialising in mergers and acquisitions, takeovers and corporate law. Lecturer in takeovers and mergers and acquisitions law for the Institute of Directors. Member of the Wellington committee of the Institute of Directors. Appointed to the Panel in 2001.



Daphne Rawstorne

Wellington-based accountant, former managing partner of Deloitte, and fellow of the Institute of Directors. Company director and business consultant. Member of the Panel since 1999.



Sue Suckling

South Island company director and business consultant. Chair of the National Institute of Water & Atmospheric Research, New Zealand Qualifications Authority, Baker Fruit Processors Limited, Carsons (SI) Limited, The Oxford Clinic Limited, HSR Governance Limited, and a director of Restaurant Brands Limited. Appointed to the Panel in 2002.

EXECUTIVE OF THE TAKEOVERS PANEL

Kerry Morrell, Senior Executive Officer
Marion Hemphill, Counsel to the Panel
Margaret Bearsley, Senior Solicitor
Jennifer Fawcett, Solicitor
Graham Miller, Solicitor
Tom Barnes, Law Clerk
Nigel Brunsdon, Accountant & IT Manager
Catherine Chapman, Communications Manager

HOW TO CONTACT US

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